

Mughal Steels: Extension in Power

Yesterday, MUGHAL vide a notice at PSX informed about extension of existing grid station load from 19.99 MW to 59.99 MW accorded by Lahore Electric Supply Company Limited (LESCO). The power station is stated to be fully operational by the 3rd quarter of calendar year 2018 (which is 1QFY19 in proper perspective).

This will indeed bring significant change in MUGHAL's existing operations in FY19. We are already expecting earnings increase scenario in FY18 given increase in rebar capacity utilization.

Earlier melting capacity was underutilized due to unavailability of electricity. On the basis of this information we have incorporated things in our model wherein increase in capacity utilization could bring volumetric upside in topline especially in FY19 i.e. Rs40bn with the estimation of nearly 62% melting capacity utilization.

Melting

The present ongoing project of installation of six (6) engines (gas fired electric generators) of 3.1 MW gross capacity each comprising of 18.6 MW will increase generation capacity by 200%. The post expansion power generation capacity would increase to 27.9 MW.

MUGHAL also got approval pertaining to increase in gas load for captive power generation from 2.80 MMCFD to 6.30 MMCFD as per PSX notice.

In FY19, we are expecting a significant jump in production of billets due to availability of electricity.

National Tariff Commission (NTC) had also imposed definitive anti-dumping duty of 27.75% on **CC Billets** for a period of five years providing protection to all local billet producers.

Rebar

The BMR of existing rerolling mills would increase production from 150k to 430k and to be expected in 2QFY18 which will be consumed in house for rebar production. This would be a good sign for better margins since imported billets are expensive given imposition of regulatory duties. There is a high demand for billets in local industry.

Pricing Regime

MUGHAL had also increased prices of Rebar by 2-5k/ton which is pass through. In future we will see MUGHAL will pass on the impact by increasing prices to maintain margins in case if there would be a further devaluation of Rupee.

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Ticker	MUGHAL
Price	63.88
52 weeks low	43.35
52 weeks high	150.43
Beta	1.5
Market Cap (PKR)	16.07 bn

Source: SCS Research

NTC Notice

ADC NO 36/2015/NTC/CCB
ADC NO 48/2016/NTC/Rebars

PSX Notice

<https://dps.psx.com.pk/notices-updates/detail2.php?id=4&nid=108146>
<https://dps.psx.com.pk/notices-updates/detail2.php?id=4&nid=105509>
<https://dps.psx.com.pk/notices-updates/detail2.php?id=4&nid=103985>

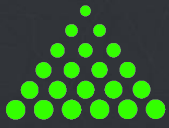
News

<https://www.thenews.com.pk/print/264502-cement-offtake-up-12pc-to-22-2mln-tons-in-july-dec>

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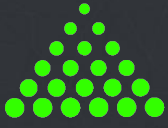
(Amount in mn)	FY17	FY18E	FY19F
Net Sales	18,803	21,625	40,500
Gross Profit	1,941.83	2,595.00	4,860.00
GM	10.33%	12.00%	12.00%
Net Profit	991	1,257	2,452.90
NM	5.27%	5.81%	6.06%
Cap. Utilization	54.18%	56.03%	61.96%
EPS	3.94	5.00	9.75

Source: SCS Research

Future demand outlook in the economy....

The construction activity is in full swing wherein cement dispatches have been up by 5%YoY in the outgoing December and we expect robust use of rebar. On the top of this rebar manufacturers had been protected by NTC through imposition of anti-dumping duty on rebar.

Rebar manufacturers will enjoy stability in revenue and margins as proxy of steel consumption in the ratio of 1:5 of cement which means better outlook in lieu of steel demand in Pakistan.



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Valuation method

Following research techniques adopted to calculate target price/recommendation

- Price to earnings & Price to Book, EV-EBITDA multiple

Discounted Cash flows or Dividend Discount Model or Enterprise Value